



STATE OF TENNESSEE  
SECRETARY OF STATE

STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0264  
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## Memorandum

**To:** Honorable Bill Haslam, Governor  
Honorable Randy McNally, Chairman  
Senate Finance, Ways, & Means Committee  
Honorable Charles Sargent, Chairman  
House Finance, Ways, & Means Committee

**From:** Tre Hargett, Secretary of State *Tre Hargett*  
Justin P. Wilson, Comptroller of the Treasury *Justin P. Wilson*  
David H. Lillard Jr., State Treasurer *David H. Lillard Jr.*  
Larry B. Martin, Commissioner, Finance and Administration *Larry B. Martin*

**Date:** December 20, 2013

**Subject:** State Funding Board Growth Projections for FY 2013-14 and FY 2014-15

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The State Funding Board met on December 10, 2013, to hear presentations on the State's economic outlook for the remainder of fiscal year 2013-14 and for fiscal year 2014-15. The Board reconvened on December 17, 2013 to discuss revenue growth projections and to arrive at consensus estimates.

### Total State Taxes and General Fund Revenue Growth Estimates

The Board is charged, in Tennessee Code Annotated Section 9-4-5202(e), with the responsibility of developing consensus estimates of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. This is a revenue estimation process, not a budgeting process. The Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue

growth; however, the Board does strive to have the highest degree of confidence in the State's ability to achieve such growth. Fiscal considerations properly belong with those who set the State's budget – the Administration that recommends appropriation levels based upon its assessment of revenue growth and the General Assembly that adopts a *de facto* revenue estimate through its final action on the appropriations bill.

The Board heard testimony regarding the economy from Dr. Albert DePrince of Middle Tennessee State University; Dr. William Fox of The University of Tennessee; Commissioner Richard Roberts of the Tennessee Department of Revenue; and Mr. Robert Currey of the legislative Fiscal Review Committee. The state tax revenue growth estimates provided by each of the presenters are summarized in two attachments to this memorandum.

The consensus of the presenters is that economic growth is moderate and will continue to be so into 2015. Inflation continues to remain stable, but could become more of a concern in future years. The presenters acknowledged that while the national and state economies continue to experience positive growth, the growth is far more modest than in prior expansionary periods. Sales tax growth and franchise and excise tax growth in Tennessee were pointed to as particular concerns.

Traditionally, Tennessee's economy tends to track the nation's economy. Presenters noted that there has been moderate growth in the national economy, as well as Tennessee's economy in recent months, highlighted by relatively strong growth in the automotive sector. The housing sector, while having rebounded from its bottom, continues to be below previous highs. The presenters expect some moderate growth in the housing market in 2014 and 2015, but not to pre-recession levels. Business investment, especially in equipment and software, is growing very slowly in this expansionary period. One presenter noted that normally in the third or fourth year of an economic expansion, there should be signs of vitality in the economy that simply are not present at this time. Forecasted continued weakness moving forward shows that the normal cyclical drivers of the economy are not increasing at a very rapid pace. Additionally, consumer confidence continues to be below that of past expansionary periods.

Employment growth nationally, and particularly in Tennessee, remains slow. One presenter noted that nearly all of the improvement seen in the unemployment rate to date has been due to a reduction in the labor force. The flow of newly unemployed persons has almost returned to pre-crisis levels, but the duration of unemployment is longer. One presenter noted that the number of unemployed includes in-migrants to the state. Tennessee, as he pointed out, has above average in-migration when compared to the nation, which is inconsistent with the notion that employment growth has been weak relative to the nation.

As of October, Tennessee's unemployment rate of 8.4% remained higher than the national average. One presenter asserted that when viewing recent data regarding new and on-going claims for unemployment insurance, the data is consistent with the unemployment rate falling as the nation's has. This presenter stated he was surprised to see a sudden shift in the unemployment relationship between Tennessee and the national average over the past year. Furthermore, he stated that some of the employment estimates for Tennessee, particularly in local government, are inconsistent with what we know is occurring. This presenter predicted that when the Bureau of Labor Statistics prepares their benchmark revisions in February 2014, the unemployment picture in Tennessee will appear better than portrayed for much of 2013.

The Board developed the following summarized consensus revenue estimates expressed in ranges of growth rates in State taxes.

|                   | FY 2013-14 |       | FY 2014-15 |       |
|-------------------|------------|-------|------------|-------|
|                   | Low        | High  | Low        | High  |
| Total State Taxes | 2.20%      | 2.40% | 2.55%      | 2.90% |
| General Fund      | 2.10%      | 2.30% | 2.85%      | 3.25% |

While it is difficult to precisely predict revenue ranges, the Board believes that these ranges are reasonable for use in state budgeting. These ranges are based on statutory tax provisions enacted through the 2013 session of the General Assembly.

#### Net Lottery Proceeds Revenue Growth Estimates and Long-Term Funding Needs Estimates

The State Funding Board also received presentations regarding the Tennessee Education Lottery (TEL). Legislation in 2003 created the Tennessee Education Lottery Corporation (TELC) (Tennessee Code Annotated Sections 4-51-101 et seq.) Tennessee Code Annotated Section 4-51-111(c) requires the board to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the four (4) succeeding fiscal years.

Mr. Robert Currey, Chief Economist of the legislative Fiscal Review Committee (FRC) presented to the Board the FRC's lottery projections. Mr. Currey observed that a matrix change to the Powerball game in January 2012 attributed to 29.6% growth in fiscal year 2012-13 revenues from fiscal year 2011-12. He expects that, due to the matrix change, higher jackpots have generated significant, sustainable, incremental revenue for future years. Mr. Currey also noted an October 2013 matrix change to Mega Millions that is

expected to positively impact revenue going forward. Year-to-date for fiscal year 2013-14, Mr. Currey noted a 21.2% growth in Powerball, Mega Millions, and Hot Lotto, as a result of the higher jackpots seen in Powerball and Mega Millions. Mr. Currey estimated that Net Lottery Proceeds available for deposit into the Lottery Education Account for fiscal years 2013-14 and 2014-15 will be 24.5% and 24.3% of total net revenue, respectively. Additionally, Mr. Currey estimated fiscal year 2013-14 growth in Net Lottery Proceeds ranging from 1.7% to 4.8%. Due to the high level of uncertainty, Mr. Currey projected the growth in total net revenues and Net Lottery Proceeds for fiscal years 2014-15 through 2016-17 to be 3.0% and 2.0% respectively.

Mr. Andy Davis, Chief Financial and Technology Officer of the TELC, highlighted fiscal year 2013-14 year-to-date information, including total tickets sales growth of 5.8%, as of November 30, 2013. Mr. Davis presented estimates of total and Net Lottery Proceeds for the current fiscal year and four succeeding fiscal years. Mr. Davis estimated positive growth in Net Lottery Proceeds for fiscal year 2013-14 ranging from 2.0% to 3.5%. TELC projected 2% growth in Net Lottery Proceeds for fiscal year 2014-15 through fiscal year 2017-18. Mr. Davis stated that these four year projections were reached making assumptions based on the industry average and TELC growth.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board with the assistance of the Tennessee Student Assistance Corporation (TSAC) to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of Tennessee Student Assistance Corporation (TSAC).

Mr. Phelps presented a decreased projection for fiscal year 2013-14, which now estimates 102,000 awards, with a projected baseline cost of \$310.8 million. Mr. Phelps also presented award estimates for fiscal year 2014-15 of 105,500 with a projected baseline cost of \$321.0 million. Additionally, it is estimated that there will be 108,500 awards in fiscal year 2015-16, with a projected baseline cost of \$330.4 million, 111,500 awards in fiscal year 2016-17 with a projected baseline cost of \$339.5 million, and 112,800 awards in fiscal year 2017-18 with a projected baseline cost of \$343.5 million. These awards include all lottery-funded scholarship programs as authorized through the 2013 session of the General Assembly, including Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Hope Access Grant, Wilder-Naifeh Technical Skills Grant, Non-traditional Student Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, the Rural Health Loan

Forgiveness Program and Tennessee Student Assistance Award.

The estimates provided by each of the presenters are summarized in an attachment to this memorandum. Consensus was reached on the following estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for the various statutory purposes.

| Net Lottery Proceeds | FY2013-14     | FY2014-15     | FY2015-16     | FY2016-17     | FY2017-18     |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Low                  | \$332,000,000 | \$339,000,000 | \$344,900,000 | \$350,900,000 | \$357,000,000 |
| High                 | \$336,000,000 | \$345,000,000 | \$351,900,000 | \$358,900,000 | \$366,100,000 |

The State Funding Board considered the joint projections for lottery scholarship and grant program funding needs provided by TSAC and accepted their recommended projections. These estimates and projections assume no new legislative changes regarding the TELC and its authority or the scholarship and grant programs.

Attached is a copy of the letter from the Department of Education requesting \$23,000 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-11(c)(2)(B) which states:

Before December 15, 2003, and before December in each succeeding year, appropriate state agencies shall submit to the funding board and to the governor their recommendations for other educational programs and purposes consistent with article XI, Section 5 of the Tennessee Constitution based on the difference between the funding board's projections and recommendations for the lottery scholarship program based on the report submitted pursuant to subdivision (c)(2)(A). In no event shall such recommendations exceed the projections of the funding board for a specific fiscal year.

Please feel free to contact us if you have any questions.

Attachments

Revenue Estimates (2)  
Lottery Estimates  
TSAC/THEC Report  
Letter from Dept. of Education

cc. The Honorable Ron Ramsey  
The Honorable Beth Harwell

COMPARISON OF ESTIMATED STATE TAX REVENUE FOR  
FISCAL YEAR 2013-2014  
(Accrual - Basis Estimates)

Schedule 1

2013-2014

| DEPARTMENT OF REVENUE                          | 2012-2013<br>ACTUAL<br>ACCRUAL | BUDGETED<br>7-1-13 | % CHANGE<br>OVER 12-13<br>ACTUAL | DR. FOX<br>ESTIMATE | % CHANGE<br>OVER 12-13<br>ACTUAL | FISCAL REVIEW<br>ESTIMATE | % CHANGE<br>OVER 12-13<br>ACTUAL | REVENUE DEPT.<br>ESTIMATE | % CHANGE<br>OVER 12-13<br>ACTUAL | DR. DePRINCE<br>ESTIMATE | % CHANGE<br>OVER 12-13<br>ACTUAL |
|------------------------------------------------|--------------------------------|--------------------|----------------------------------|---------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|--------------------------|----------------------------------|
| SOURCE OF REVENUE                              |                                |                    |                                  |                     |                                  |                           |                                  |                           |                                  |                          |                                  |
| Sales and use Tax                              | \$ 7,012,028,700               | \$ 7,288,400,000   | 3.94%                            | \$ 7,250,400,000    | 3.40%                            | \$ 7,275,000,000          | 3.75%                            | \$ 7,270,500,000          | 3.69%                            | \$ 7,233,300,000         | 3.16%                            |
| Gasoline Tax                                   | 615,043,000                    | 611,800,000        | -0.53%                           | 614,000,000         | -0.17%                           | 612,000,000               | -0.49%                           | 619,400,000               | 0.71%                            | 610,000,000              | -0.82%                           |
| Motor Fuel Tax                                 | 156,993,300                    | 162,300,000        | 3.38%                            | 159,400,000         | 1.53%                            | 161,700,000               | 3.00%                            | 159,800,000               | 1.79%                            | 166,000,000              | 5.74%                            |
| Gasoline Inspection Tax                        | 62,919,900                     | 63,700,000         | 1.24%                            | 62,600,000          | -0.51%                           | 62,500,000                | -0.67%                           | 63,300,000                | 0.60%                            |                          | NA                               |
| Motor Vehicle Registration Tax                 | 252,893,600                    | 256,500,000        | 1.43%                            | 259,200,000         | 2.49%                            | 262,000,000               | 3.60%                            | 264,500,000               | 4.59%                            | 260,600,000              | 3.05%                            |
| Income Tax                                     | 233,418,800                    | 201,800,000        | -13.55%                          | 261,400,000         | 11.99%                           | 250,000,000               | 7.10%                            | 278,800,000               | 19.44%                           | 264,800,000              | 13.44%                           |
| Privilege Tax - Less Earmarked Portion         | 259,758,100                    | 298,200,000        | 14.80%                           | 290,100,000         | 11.68%                           | 293,000,000               | 12.80%                           | 282,500,000               | 8.76%                            | 300,100,000              | 15.53%                           |
| Gross Receipts Tax - Total                     | 368,245,900                    | 374,200,000        | 1.62%                            | 361,100,000         | -1.94%                           | 359,904,000               | -2.27%                           | 359,100,000               | -2.48%                           | 374,000,000              | 1.56%                            |
| Gross Receipts Tax - TVA                       | 343,128,900                    | 342,700,000        | -0.12%                           | 332,100,000         | -3.21%                           | 332,104,000               | -3.21%                           | 332,100,000               | -3.21%                           |                          | NA                               |
| Gross Receipts Tax - Other                     | 25,117,000                     | 31,500,000         | 25.41%                           | 29,000,000          | 15.46%                           | 27,800,000                | 10.68%                           | 27,000,000                | 7.50%                            |                          | NA                               |
| Beer Tax                                       | 17,224,300                     | 17,800,000         | 3.34%                            | 18,000,000          | 4.50%                            | 18,100,000                | 5.08%                            | 17,100,000                | -0.72%                           |                          | NA                               |
| Alcoholic Beverage Tax                         | 52,116,400                     | 55,100,000         | 5.72%                            | 55,200,000          | 5.92%                            | 55,500,000                | 6.49%                            | 54,200,000                | 4.00%                            |                          | NA                               |
| Franchise & Excise Taxes                       | 2,020,504,700                  | 2,135,900,000      | 5.71%                            | 2,000,300,000       | -1.00%                           | 1,995,000,000             | -1.26%                           | 1,961,900,000             | -2.90%                           | 2,088,800,000            | 3.38%                            |
| Inheritance and Estate Tax                     | 110,627,500                    | 85,000,000         | -23.17%                          | 85,000,000          | -23.17%                          | 95,000,000                | -14.13%                          | 99,300,000                | -10.24%                          |                          | NA                               |
| Tobacco Tax                                    | 277,426,600                    | 272,700,000        | -1.70%                           | 271,900,000         | -1.99%                           | 271,000,000               | -2.32%                           | 277,100,000               | -0.12%                           |                          | NA                               |
| Motor Vehicle Title Fees                       | 11,913,600                     | 13,100,000         | 9.96%                            | 12,000,000          | 0.73%                            | 12,400,000                | 4.08%                            | 12,400,000                | 4.08%                            |                          | NA                               |
| Mixed Drink Tax                                | 69,580,100                     | 72,400,000         | 4.05%                            | 73,100,000          | 5.06%                            | 74,500,000                | 7.07%                            | 73,100,000                | 5.06%                            |                          | NA                               |
| Business Tax                                   | 137,708,200                    | 140,600,000        | 2.10%                            | 143,200,000         | 3.99%                            | 139,000,000               | 0.94%                            | 142,600,000               | 3.55%                            |                          | NA                               |
| Severance Tax                                  | 2,374,200                      | 2,400,000          | 1.09%                            | 2,500,000           | 5.30%                            | 2,600,000                 | 9.51%                            | 2,900,000                 | 22.15%                           |                          | NA                               |
| Coin Operated Amusement Tax                    | 329,900                        | 300,000            | -9.06%                           | 300,000             | -9.06%                           | 350,000                   | 6.09%                            | 300,000                   | -9.06%                           |                          | NA                               |
| Unauthorized Substance Tax                     | 4,600                          | -                  | NA                               | -                   | NA                               | -                         | NA                               | -                         | NA                               | 722,600,000 *            | NA                               |
| All Other Taxes                                |                                | -                  | NA                               | -                   | NA                               | -                         | NA                               | -                         | NA                               | \$12,020,200,000         | 3.08%                            |
| TOTAL DEPARTMENT OF REVENUE                    | \$11,661,111,400               | \$12,052,200,000   | 3.35%                            | \$11,919,700,000    | 2.22%                            | \$11,939,554,000          | 2.39%                            | \$11,938,800,000          | 2.38%                            | \$10,010,600,000         | 3.03%                            |
| GENERAL FUND ONLY (2)                          | \$ 9,716,191,600               | \$10,085,800,000   | 3.60%                            | \$ 9,920,100,000    | 2.10%                            | \$ 9,939,454,000          | 2.30%                            | \$ 9,922,100,000          | 2.12%                            | \$ (32,000,000)          |                                  |
| Budgeted Est. Compared to New Est. - Total     |                                |                    |                                  | \$ (132,500,000)    |                                  | \$ (112,646,000)          |                                  | \$ (113,400,000)          |                                  | \$ (55,200,000)          |                                  |
| Budgeted Est. Compared to New Est. - Gen. Fund |                                |                    |                                  | \$ (145,700,000)    |                                  | \$ (126,346,000)          |                                  | \$ (143,700,000)          |                                  |                          |                                  |

| SELECTED TAXES             | ACTUAL           | BUDGETED         | %       | DR. FOX          | %      | FISCAL REVIEW    | %      | REVENUE DEPT.    | %      | DR. DePRINCE     | %      |
|----------------------------|------------------|------------------|---------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|
| SALES AND USE TAX          | \$ 7,012,028,700 | \$ 7,288,400,000 | 3.94%   | \$ 7,250,400,000 | 3.40%  | \$ 7,275,000,000 | 3.75%  | \$ 7,270,500,000 | 3.69%  | \$ 7,233,300,000 | 3.16%  |
| FRANCHISE AND EXCISE TAXES | 2,020,504,700    | 2,135,900,000    | 5.71%   | 2,000,300,000    | -1.00% | 1,995,000,000    | -1.26% | 1,961,900,000    | -2.90% | 2,088,800,000    | 3.38%  |
| INCOME TAX                 | 233,418,800      | 201,800,000      | -13.55% | 261,400,000      | 11.99% | 250,000,000      | 7.10%  | 278,800,000      | 19.44% | 264,800,000      | 13.44% |
| ROAD USER TAXES            | 1,087,849,800    | 1,094,300,000    | 0.59%   | 1,095,200,000    | 0.68%  | 1,098,200,000    | 0.95%  | 1,107,000,000    | 1.76%  |                  | NA     |
| ALL OTHER TAXES            | 1,307,309,400    | 1,331,800,000    | 1.87%   | 1,312,400,000    | 0.39%  | 1,321,354,000    | 1.07%  | 1,320,600,000    | 1.02%  |                  | NA     |

(1) Privilege Tax estimates are reduced by \$43.0 million in FY 2012-2013 for the earmarked portion of the tax. The FY 2013-2014 Budgeted estimate is reduced by \$34.8 million.

The FY 2013-2014 Revised Estimate is reduced by \$43.0 million.

(2) F&A calculated the General Fund distribution for all presenters.

\* F&A distributed Dr. DePrince's estimate for All Other Taxes based on the General Fund ratio for these taxes in the 2013-2014 Budgeted Estimate.

**COMPARISON OF ESTIMATED STATE TAX REVENUE FOR  
FISCAL YEAR 2014-2015**  
(Actual - Basis Estimates)

Schedule 2

2014-2015

| DEPARTMENT OF REVENUE                         | DR. FOX<br>ESTIMATE     | % CHANGE<br>OVER 13-14<br>ESTIMATE | FISCAL REVIEW<br>ESTIMATE | % CHANGE<br>OVER 13-14<br>ESTIMATE | REVENUE DEPT.<br>ESTIMATE | % CHANGE<br>OVER 13-14<br>ESTIMATE | DR. DePRINCE<br>ESTIMATE | % CHANGE<br>OVER 13-14<br>ESTIMATE |
|-----------------------------------------------|-------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|--------------------------|------------------------------------|
| <b>SOURCE OF REVENUE</b>                      |                         |                                    |                           |                                    |                           |                                    |                          |                                    |
| Sales and use Tax                             | \$ 7,482,400,000        | 3.20%                              | \$ 7,515,000,000          | 3.30%                              | \$ 7,568,600,000          | 4.10%                              | \$ 7,488,700,000         | 3.53%                              |
| Gasoline Tax                                  | 614,000,000             | 0.00%                              | 611,000,000               | -0.16%                             | 617,300,000               | -0.34%                             | 611,900,000              | 0.31%                              |
| Motor Fuel Tax                                | 160,900,000             | 0.94%                              | 162,000,000               | 0.19%                              | 163,500,000               | 2.32%                              | 167,600,000              | 0.96%                              |
| Gasoline Inspection Tax                       | 63,200,000              | 0.96%                              | 62,200,000                | -0.48%                             | 63,300,000                | 0.00%                              |                          | NA                                 |
| Motor Vehicle Registration Tax                | 264,400,000             | 2.01%                              | 269,860,000               | 3.00%                              | 275,100,000               | 4.01%                              | 265,700,000              | 1.96%                              |
| Income Tax                                    | 271,900,000             | 4.02%                              | 280,000,000               | 4.00%                              | 299,800,000               | -6.81%                             | 275,100,000              | 3.89%                              |
| Privilege Tax - Less Earmarked Portion        | 310,100,000             | 6.89%                              | 310,000,000               | 5.80%                              | 292,400,000               | 3.50%                              | 312,900,000              | 4.27%                              |
| Gross Receipts Tax - Total                    | 362,600,000             | 0.42%                              | 367,658,000               | 2.15%                              | 362,800,000               | 1.03%                              | 384,300,000              | 2.75%                              |
| Gross Receipts Tax - TVA                      | 332,100,000             | 0.00%                              | 338,746,000               | 2.00%                              | 335,400,000               | 0.99%                              |                          | NA                                 |
| Gross Receipts Tax - Other                    | 30,500,000              | 5.17%                              | 28,912,000                | 4.00%                              | 27,400,000                | 1.48%                              |                          | NA                                 |
| Beer Tax                                      | 18,500,000              | 2.78%                              | 18,600,000                | 2.76%                              | 17,000,000                | -0.58%                             |                          | NA                                 |
| Alcoholic Beverage Tax                        | 57,400,000              | 3.99%                              | 57,300,000                | 3.24%                              | 56,300,000                | 3.87%                              |                          | NA                                 |
| Franchise & Excise Taxes                      | 2,040,300,000           | 2.00%                              | 2,075,000,000             | 4.01%                              | 2,079,600,000             | 6.00%                              | 2,151,600,000            | 3.01%                              |
| Inheritance and Estate Tax                    | 70,000,000              | -17.65%                            | 72,000,000                | -24.21%                            | 82,500,000                | -16.92%                            |                          | NA                                 |
| Tobacco Tax                                   | 269,100,000             | 1.67%                              | 270,000,000               | -0.37%                             | 275,700,000               | -0.51%                             |                          | NA                                 |
| Motor Vehicle Title Fees                      | 12,200,000              | 4.92%                              | 12,900,000                | 4.03%                              | 13,000,000                | 4.84%                              |                          | NA                                 |
| Mixed Drink Tax                               | 76,700,000              | 4.92%                              | 78,500,000                | 5.37%                              | 77,200,000                | 5.61%                              |                          | NA                                 |
| Business Tax                                  | 148,900,000             | 3.98%                              | 142,475,000               | 2.50%                              | 149,800,000               | 5.05%                              |                          | NA                                 |
| Severance Tax                                 | 2,700,000               | 8.00%                              | 2,700,000                 | 3.85%                              | 3,100,000                 | 6.90%                              |                          | NA                                 |
| Coin Operated Amusement Tax                   | -                       | -100.00%                           | 370,000                   | 5.71%                              | 300,000                   | 0.00%                              |                          | NA                                 |
| Unauthorized Substance Tax                    | -                       | NA                                 | -                         | NA                                 | -                         | NA                                 | 728,200,000              | 0.77%                              |
| All Other Taxes                               | -                       | NA                                 | -                         | NA                                 | -                         | NA                                 |                          | 0.77%                              |
| <b>TOTAL DEPARTMENT OF REVENUE</b>            | <b>\$12,225,300,000</b> | <b>2.56%</b>                       | <b>\$12,287,563,000</b>   | <b>2.91%</b>                       | <b>\$12,357,300,000</b>   | <b>3.51%</b>                       | <b>\$12,386,000,000</b>  | <b>3.04%</b>                       |
| <b>GENERAL FUND ONLY (2)</b>                  | <b>\$10,203,400,000</b> | <b>2.86%</b>                       | <b>\$10,262,363,000</b>   | <b>3.25%</b>                       | <b>\$10,320,100,000</b>   | <b>4.01%</b>                       | <b>\$10,348,900,000</b>  | <b>3.38%</b>                       |
| Growth over FY 14 Budgeted Est. - Total       | \$ 173,100,000          |                                    | \$ 235,363,000            |                                    | \$ 305,100,000            |                                    | \$ 333,800,000           |                                    |
| Growth over FY 14 Budgeted Est. - Gen. Fund   | \$ 137,600,000          |                                    | \$ 196,563,000            |                                    | \$ 254,300,000            |                                    | \$ 283,100,000           |                                    |
| Revised Est. Compared to New Est. - Total     | \$ 305,600,000          |                                    | \$ 348,009,000            |                                    | \$ 418,500,000            |                                    | \$ 365,800,000           |                                    |
| Revised Est. Compared to New Est. - Gen. Fund | \$ 283,300,000          |                                    | \$ 322,909,000            |                                    | \$ 396,000,000            |                                    | \$ 336,300,000           |                                    |
| <b>SELECTED TAXES</b>                         |                         |                                    |                           |                                    |                           |                                    |                          |                                    |
| <b>SALES AND USE TAX</b>                      | <b>\$ 7,482,400,000</b> | <b>3.20%</b>                       | <b>\$ 7,515,000,000</b>   | <b>3.30%</b>                       | <b>\$ 7,568,600,000</b>   | <b>4.10%</b>                       | <b>\$ 7,488,700,000</b>  | <b>3.53%</b>                       |
| <b>FRANCHISE AND EXCISE TAXES</b>             | <b>2,040,300,000</b>    | <b>2.00%</b>                       | <b>2,075,000,000</b>      | <b>4.01%</b>                       | <b>2,079,600,000</b>      | <b>6.00%</b>                       | <b>2,151,600,000</b>     | <b>3.01%</b>                       |
| <b>INCOME TAX</b>                             | <b>271,900,000</b>      | <b>4.02%</b>                       | <b>280,000,000</b>        | <b>4.00%</b>                       | <b>259,800,000</b>        | <b>-6.81%</b>                      | <b>275,100,000</b>       | <b>3.89%</b>                       |
| <b>ROAD USER TAXES</b>                        | <b>1,102,500,000</b>    | <b>0.67%</b>                       | <b>1,105,060,000</b>      | <b>0.62%</b>                       | <b>1,119,200,000</b>      | <b>1.10%</b>                       | <b></b>                  | <b>NA</b>                          |
| <b>ALL OTHER TAXES</b>                        | <b>1,328,200,000</b>    | <b>1.20%</b>                       | <b>1,332,503,000</b>      | <b>0.84%</b>                       | <b>1,330,100,000</b>      | <b>0.72%</b>                       | <b></b>                  | <b>NA</b>                          |

(1) Privilege Tax estimates are reduced by \$43.0 million in FY 2014-2015 for the earmarked portion of the tax.

(2) F&A calculated the General Fund distribution for all presenters.

\* F&A distributed Dr. DePrince's estimate for All Other Taxes based on the General Fund ratio for these taxes in the 2013-2014 Budgeted Estimate.

Net Lottery Proceeds Estimates  
Actual 2012-2013 and Estimated 2013-2014 Through 2017-2018  
December 17, 2013

|                     | 2012-2013<br>Actual | 2013-2014<br>Revised | %     | 2014-2015<br>Estimated | %     | 2015-2016<br>Estimated | %     | 2016-2017<br>Estimated | %     | 2017-2018<br>Estimated | %     |
|---------------------|---------------------|----------------------|-------|------------------------|-------|------------------------|-------|------------------------|-------|------------------------|-------|
| Lottery Corporation |                     |                      |       |                        |       |                        |       |                        |       |                        |       |
| Low                 | 321,542,300         | 327,848,000          | 1.96% | 334,000,000            | 1.88% | 341,000,000            | 2.10% | 347,000,000            | 1.76% | 354,000,000            | 2.02% |
| High                | 321,542,300         | 332,781,000          | 3.50% | 339,000,000            | 1.87% | 346,000,000            | 2.06% | 353,000,000            | 2.02% | 360,000,000            | 1.98% |
| Fiscal Review Staff |                     |                      |       |                        |       |                        |       |                        |       |                        |       |
| Low                 | 321,542,300         | 327,100,000          | 1.73% | 332,700,000            | 1.71% |                        |       |                        |       |                        |       |
| Mean                | 321,542,300         | 332,000,000          | 3.25% | 339,000,000            | 2.11% | 345,780,000            | 2.00% | 352,696,000            | 2.00% | 359,750,000            | 2.00% |
| High                | 321,542,300         | 336,900,000          | 4.78% | 345,400,000            | 2.52% |                        |       |                        |       |                        |       |
| Recommended Range   |                     |                      |       |                        |       |                        |       |                        |       |                        |       |
| Low                 | 321,542,300         | 332,000,000          | 3.25% | 339,000,000            | 2.11% | 344,900,000            | 1.74% | 350,900,000            | 1.74% | 357,000,000            | 1.74% |
| High                | 321,542,300         | 336,000,000          | 4.50% | 345,000,000            | 2.68% | 351,900,000            | 2.00% | 358,900,000            | 1.99% | 366,100,000            | 2.01% |





STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
SUITE 1510, PARKWAY TOWERS  
404 JAMES ROBERTSON PARKWAY  
NASHVILLE, TENNESSEE 37243-0820  
(615)741-1346 • 1-800-342-1663 • FAX (615)741-6101  
[www.TN.gov/collegepays](http://www.TN.gov/collegepays)

December 10, 2013

**MEMORANDUM**

TO: State Funding Board

FROM: Tim Phelps, Tennessee Student Assistance Corporation

SUBJECT: Tennessee Education Lottery Scholarship Program Projections

Pursuant to T.C.A 4-51-111(c)(2)(A)(ii), the Tennessee Higher Education Commission (THEC) and Tennessee Student Assistance Corporation (TSAC) have collaborated with the University of Tennessee Center for Business and Economic Research (CBER) to project expenditures in lottery scholarship and grant programs through the 2018-19 academic year.

The figures below incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, and the Math & Science Teacher Loan Forgiveness Program.

| Fiscal Year       | TELS Expenditures Low | TELS Expenditures Baseline | TELS Expenditures High | Recipients |
|-------------------|-----------------------|----------------------------|------------------------|------------|
| 2012-13 actual    | N/A                   | \$312.0M                   | N/A                    | 102,600    |
| 2013-14 estimated | \$306.1M              | \$310.8M                   | \$329.0M               | 102,000    |
| 2014-15 estimated | \$316.1M              | \$321.0M                   | \$340.0M               | 105,500    |
| 2015-16 estimated | \$325.1M              | \$330.4M                   | \$353.3M               | 108,500    |
| 2016-17 estimated | \$334.6M              | \$339.5M                   | \$362.9M               | 111,500    |
| 2017-18 estimated | \$338.7M              | \$343.5M                   | \$367.6M               | 112,800    |
| 2018-19 estimated | \$342.1M              | \$347.6M                   | \$372.4M               | 113,900    |

*\*Does not include supplemental funding of \$6.8M for TSAA and administrative costs of \$3.8M.*

These projections are based on the size of the annual high school graduating class, the scholarship take-up rate of eligible students, and the renewal rate of recipients. If further structural changes are made to the program, these projected expenditures may change.

Please let us know if you have questions or need anything further.



STATE OF TENNESSEE  
**DEPARTMENT OF EDUCATION**  
6<sup>th</sup> FLOOR, ANDREW JOHNSON TOWER  
710 JAMES ROBERTSON PARKWAY  
NASHVILLE, TN 37243-0375

**BILL HASLAM**  
GOVERNOR

**KEVIN HUFFMAN**  
COMMISSIONER

**TO:** Members of the Tennessee State Funding Board

**FROM:** Kevin Huffman *KH*

**DATE:** December 10, 2013

**SUBJECT:** Request for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for FY 2014-2015

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of \$23,000 from net lottery proceeds in FY 2014-2015 for Lottery Scholarship Day.

These funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated.

cc: David Thurman